

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input checked="" type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name Sherman Township	County Keweenaw
Fiscal Year End March 31, 2007	Opinion Date July 31, 2007	Date Audit Report Submitted to State August 27, 2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES NO **Check each applicable box below.** (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☒ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

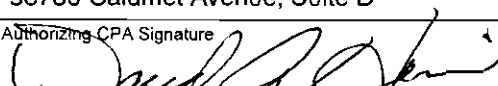
We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) David A. Heinonen, CPA, PC		Telephone Number (906) 337-2910	
Street Address 56730 Calumet Avenue, Suite D		City Calumet	State MI
		Zip 49913	
Authorizing CPA Signature 		Printed Name David A. Heinonen	License Number 1101023766

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Independent Auditor's Report

Board Members
Sherman Township
Lake Linden, MI 49945

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Sherman Township, Michigan, as of and for the year ended March 31, 2007, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Sherman Township's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Sherman Township as of March 31, 2007, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with **Government Auditing Standards**, we have also issued our report dated July 31, 2007 on our consideration of the Sherman Township's internal control over financial reporting and our tests of its compliance with certain provisions of laws regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with **Government Auditing Standards**, and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis on pages 4 through 7 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Sherman Township's basic financial statements. The accompanying other supplemental information listed in the cable contents is presented for purposes of additional analysis is not a required part of the basic financial statements. This other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

David A. Heinonen, CPA, PC

Laurium, Michigan
July 31, 2007

MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED)

Our discussion and analysis of the Sherman Township (Township) financial performance provides an overview of the financial activities for the year ended March 31, 2007. Please read it in conjunction with the Township's financial statements, which begin on page 7.

FINANCIAL HIGHLIGHTS

The Township's net assets were reported, in the previous fiscal year, for the first time under GASB 34. Currently, comparative information will be presented in the various schedules throughout the Management Discussion and Analysis (MD&A).

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets (on pages 7 and 9) provide information about the activities of the Township as a whole and present a longer-term view of the Township's finances.

Report Components

This annual report consists of five parts as follows:

Government-wide Financial Statements: The Statement of Net Assets and the Statement of Activities provide information about the activities of the Township government-wide (or "as a whole") and present a longer-term view of the Township's finances.

Fund Financial Statements: Fund financial statements focus on the individual parts of the Township government. Fund financial statements also report the Township's operations in more detail than the government-wide statements by providing information about the Township's most significant ("major") funds. For governmental entities the statements to all the services are financing the short term as well as what remains for future spending or proprietary activities statements over short term and long-term financial information about the activities of the township right side businesses such as the sewage and water services for fiduciary activities the statements account for us it's a black township is agent and trustee for others and include the property tax funds

Notes to Financial Statements: The notes to the financial statements are integral part of the government-wide and fund financial statements and provide expanded explanation detail regarding information reported in the statements.

Required Supplementary Information: This Management Discussion and Analysis and the Budgetary Comparison Schedules represent financial information required to be presented by the GASB. Such information provides users with additional data that supplements the "basic financial statements" which include the government-wide statements, fund financial statements, and notes to the financial statements

Other Supplementary Information: This part of the annual report includes optional financial information such as combining statements for non-major funds, which are added together and shown in the fund financial statements in a single column and a federal program section. This other supplemental financial information is provided to address certain specific needs of various users of Township's annual report.

REPORTING THE TOWNSHIP AS A WHOLE

Our analysis of the Township as a whole begins on page 7. One of the most important questions asked about the Township's finances is "Is the Township, as a whole, better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Revenues, Expenses, and Change in Net Assets report information about the Township as a whole and about its activities in a way that helps answer this question. These statements include *all* assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies.

REPORTING THE TOWNSHIP AS A WHOLE (continued)

All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. These two statements report the Township's net assets and changes in them. You can think of the Township's net assets—the difference between assets and liabilities – as one way to measure the Township's financial health, or *financial position*. Over time, increases or decreases in the Township's net assets are one indicator of whether its *financial health* is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the local population, and related demographics.

The Statement of Net Assets and the Statement of Activities is divided into two types of activities:

Governmental activities - Most of the Township's basic services are reported here, including the police, fire, general administration, public works and recreation. Property taxes, state statutory aid and state and federal grants finance most of these activities.

Business-type activities - The Township charges fees to its water/sewage customers to help it cover all or most of the costs these services it provides.

THE TOWNSHIP AS A WHOLE

In a condensed format, the table below provides a summary of the Township's net assets (in thousands of dollars). The Township's combined net assets at March 31, 2007 increased \$12,619 from March 31, 2006.

Table 1 - Net Assets						
(in thousands)						
	Governmental Activities		Business-Type Activities		Total	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Current assets	\$ 63.5	\$ 62.9	\$ 62.0	\$ 45.0	\$ 125.5	\$ 107.9
Noncurrent assets	29.2	26.9	761.4	603.2	790.7	630.1
Total assets	<u>92.8</u>	<u>89.9</u>	<u>823.4</u>	<u>648.2</u>	<u>916.2</u>	<u>738.1</u>
Current liabilities	1.0	4.9	41.3	39.0	42.3	43.9
Other liabilities	9.9	11.7	317.5	149.0	327.4	160.7
Total liabilities	<u>10.9</u>	<u>16.6</u>	<u>358.8</u>	<u>188.0</u>	<u>369.7</u>	<u>204.6</u>
Net Assets						
Investment in capital assets, net of related debt	18.4	15.2	393.4	413.5	411.8	428.7
Restricted net assets	7.8		40.7	29.3	48.5	29.3
Unrestricted net assets	55.6	62.8	30.6	17.4	86.2	80.2
Net Assets	<u>\$ 81.9</u>	<u>\$ 78.1</u>	<u>\$ 464.6</u>	<u>\$ 460.2</u>	<u>\$ 546.5</u>	<u>\$ 538.2</u>

Net assets of the Township are \$546,511, at March 31, 2007, and \$538,248 in 2006. Unrestricted net business assets were \$86,248, and \$80,246, respectively, and restricted net assets were \$48,464, and \$29,302 respectively. In general, the Township's unrestricted net assets are used to fund operations of the Township, and restricted assets are used for specific purposes (i.e., Community Hall Projects), bond principal and interest repayments, bond reserves, and water and sewer system repairs.

Table 2 - Changes in Net Assets

	(in thousands)					
	Governmental Activities		Business-Type Activities		Total	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Program revenues: Charges for services	\$ 10.1	\$ 9.1	\$ 47.0	\$ 35.9	\$ 57.1	\$ 45.0
Program grants and subsidies	0.0	0.0	0.0	0.0	0.0	0.0
General revenues	50.5	52.7	0.5	0.4	51.0	53.1
Total revenues	<u>60.6</u>	<u>61.8</u>	<u>47.5</u>	<u>36.4</u>	<u>108.1</u>	<u>98.2</u>
Operating expenses	52.1	57.4	43.3	37.1	95.5	94.5
Loss on sale of fixed assets		0.0		0.0	0.0	0.0
Total expenses	<u>52.1</u>	<u>57.4</u>	<u>43.3</u>	<u>37.1</u>	<u>95.5</u>	<u>94.5</u>
Increase in net assets	8.4	4.4	4.2	(0.8)	12.6	3.6
Net assets - beginning of year	<u>78.1</u>	<u>73.7</u>	<u>460.2</u>	<u>461.0</u>	<u>538.2</u>	<u>534.6</u>
Prior period interfund adjustment	(4.6)		0.2		(4.4)	
Net assets - end of year	<u>\$ 81.9</u>	<u>\$ 78.1</u>	<u>\$ 464.6</u>	<u>\$ 460.2</u>	<u>\$ 546.5</u>	<u>\$ 538.2</u>

CAPITAL ASSET AND DEBT ADMINISTRATION**Capital Assets**

At the end of fiscal 2007, the Township had \$1,401,500, invested in a variety of capital assets including land, equipment and sewer/water systems as follows:

Table 3 - Capital Assets at March 31, 2007

	(in thousands)					
	Governmental Activities		Business-Type Activities		Total	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Land and improvements	\$ 0.0	\$ 0.0	\$ 3.0	\$ 3.0	\$ 3.0	\$ 3.0
Buildings and improvements	468.9	459.4	0.0	0.0	468.9	459.4
Equipment	119.9	119.9	0.0	0.0	119.9	119.9
Water and sewer systems	0.0	0.0	809.7	644.9	809.7	644.9
Total depreciable assets cost	<u>588.8</u>	<u>579.3</u>	<u>809.7</u>	<u>644.9</u>	<u>1,398.5</u>	<u>1,224.2</u>
Total Capital Assets	<u>\$ 588.8</u>	<u>\$ 579.3</u>	<u>\$ 812.7</u>	<u>\$ 647.9</u>	<u>\$ 1,401.5</u>	<u>\$ 1,227.2</u>

Long-term Debt**Table 4 - Long-term Debt at March 31, 2007**

	(in thousands)					
	Governmental Activities		Business-Type Activities		Total	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Notes/loans payable	\$ 10.8	\$ 12	\$ 0.0	\$ 0.0	\$ 10.8	\$ 11.7
Bonds payable	0.0	0.0	320.0	150.5	320.0	150.5
	<u>\$ 10.8</u>	<u>\$ 11.7</u>	<u>\$ 320.0</u>	<u>\$ 150.5</u>	<u>\$ 330.8</u>	<u>\$ 162.2</u>

Long-term Debt (continued)

At year end, the township had \$330,810, in long-term debt outstanding, and \$163,210, in long-term debt last year as indicated in the above table.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The Township's appointed officials considered many factors when setting the budget for the fiscal year 2007 budget. In the upcoming year, we do not anticipate any significant changes in the local demographics, number of taxpayers or customers or their related consumption, or other factors that would provide any substantial change in revenues. There continues to be a variety of inflationary costs and expense issues. These and other factors were taken into consideration during the 2007 budget process.

CONTACTING THE TOWNSHIP'S FINANCIAL MANAGEMENT

This financial report is designed to provide the readers with a general overview of the Township's finances and to show the Township's accountability for the money it receives. If you have questions about this report or need additional financial information, please contact the Township's Supervisor or Treasurer in their offices during regular business hours at (906) 296-1211.

SHERMAN TOWNSHIP
Statement of Net Assets
March 31, 2007

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
CURRENT ASSETS			
Cash and cash equivalents	\$ 61,466	\$ 7,949	\$ 69,414
Accounts receivable, net		11,042	11,042
Taxes receivable		2,353	2,353
Interest receivable		26	26
Due from other funds	2,062		2,062
Restricted assets		40,611	40,611
Total Current Assets	63,528	61,981	125,509
NONCURRENT ASSETS			
Capital Assets, net of accumulated depreciation	29,242	546,671	575,912
Construction in progress		199,466	199,466
Total Noncurrent Assets	29,242	746,136	775,378
OTHER ASSETS			
Deferred bond issue costs, net		15,310	15,310
TOTAL ASSETS	\$ 92,769	\$ 823,427	\$ 916,196
LIABILITIES			
Accounts payable	\$	\$ 1,260	\$ 1,260
Construction payable		32,769	32,769
Due to other funds		2,062	2,062
Payable from restricted assets:			
Accrued interest	84	2,701	2,785
Current maturities on revenue bonds	900	2,500	3,400
Total Current Liabilities	984	41,292	42,276
LONG-TERM DEBT			
Revenue bonds payable		320,000	320,000
Notes payable	10,810		10,810
Current maturities	(900)	(2,500)	(3,400)
Total Long-term Debt	9,910	317,500	327,410
Total Liabilities	10,894	358,792	369,686
NET ASSETS			
Investment in capital assets, net of related debt	18,432	393,367	411,799
Restricted net assets	7,800	40,611	48,411
Unrestricted net assets	55,644	30,657	86,301
NET ASSETS	\$ 81,876	\$ 464,635	\$ 546,511

The accompanying notes are an integral part of the financial statements.

SHERMAN TOWNSHIP
Statement of Activities
For the Year ended March 31, 2007

FUNCTIONS/PROGRAMS	Program Revenue				Net (Expenses) Revenues & Changes in Net Assets	
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government	
					Governmental Activities	Business-Type Activities
Primary Government:						
Governmental Activities						
Legislative	\$ 9,715	\$	\$	\$	(9,715)	\$
General Government	7,602				(7,602)	
Public Safety:						
Police	0				0	0
Fire	2,979				(2,979)	(2,979)
Public Services	12,455	10,090			(2,365)	(2,365)
Other	18,858				(18,858)	(18,858)
Interest on long-term debt	528				(528)	(528)
Total governmental activities	<u>52,137</u>	<u>10,090</u>	<u>0</u>	<u>0</u>	<u>(42,047)</u>	<u>(42,047)</u>
Business-Type Activities						
Water utility	19,153	26,667	0	0		7,513
Sewage disposal	24,178	20,326	0	0		(3,852)
Total business-type activities	<u>43,331</u>	<u>46,992</u>	<u>0</u>	<u>0</u>		<u>3,661</u>
Total primary government	<u>\$ 95,468</u>	<u>\$ 57,082</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ (42,047)</u>	<u>3,661</u>
General Revenues:						
Property taxes					35,172	35,172
State shared revenue					6,948	6,948
Unrestricted investment earnings					462	529
Miscellaneous					7,494	7,494
Transfers					399	399
Total general revenues					<u>50,475</u>	<u>529</u>
Changes in net assets					8,428	4,190
Net assets, beginning					<u>78,058</u>	<u>460,190</u>
Prior period interfund adjustment					<u>(4,610)</u>	<u>255</u>
Net assets, ending					<u>\$ 81,876</u>	<u>\$ 464,635</u>
						<u>\$ 546,511</u>

The accompanying notes are an integral part of the financial statements.

SHERMAN TOWNSHIP
Governmental Funds Balance Sheet
March 31, 2007

	<u>General Fund</u>	<u>Special Revenue Fund (Fire Dept.)</u>	<u>Total</u>
ASSETS			
Cash and cash equivalents	\$ 55,790	\$ 5,676	\$ 61,466
Due from other funds	<u>2,062</u>	<u></u>	<u>2,062</u>
Total Assets	<u>57,852</u>	<u>5,676</u>	<u>63,528</u>
FUND BALANCES			
Unrestricted	50,052	5,676	55,728
Restricted	<u>7,800</u>	<u></u>	<u>7,800</u>
Total Fund Balances	<u>57,852</u>	<u>5,676</u>	<u>63,528</u>
Cost of Capital Assets			588,800
Accumulated Depreciation			(559,474)
Long-term liabilities are not due and payable in the current period and are not reported in the funds			(10,810)
Accrued interest payable is not included as a liability in government activities			(84)
Prior period interfund balance adjustments			(84)
Net Assets of Governmental Activities		\$	<u><u>81,876</u></u>

The accompanying notes are an integral part of the financial statements.

SHERMAN TOWNSHIP**Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balance
For the Year ended March 31, 2007**

	<u>General Fund</u>	<u>Special Revenue Fund (Fire Dept.)</u>	<u>Total</u>
Revenues			
Taxes	\$ 35,172	\$	\$ 35,172
State aid	6,948		6,948
Charges for services	10,090		10,090
Interest	462		462
Other	5,792	1,702	\$ 7,494
Total Revenues	<u>58,464</u>	<u>1,702</u>	<u>60,166</u>
Expenditures			
Legislative	9,715		9,715
General Government	7,602		7,602
Public Safety	2,000	979	2,979
Public Services	12,455		12,455
Other	9,798		9,798
Interest on long-term debt	443		443
Total Expenditures	<u>42,013</u>	<u>979</u>	<u>42,993</u>
Excess of revenues over(under) expenditures	<u>16,451</u>	<u>723</u>	<u>17,174</u>
Other financing sources (uses)			
Operating transfers in	<u>399</u>		<u>399</u>
Net Change in Fund Balance	<u>16,849</u>	<u>723</u>	<u>17,573</u>
Fund balance-beginning	<u>43,421</u>	<u>7,831</u>	
Fund balance-ending	<u>\$ 60,270</u>	<u>\$ 8,554</u>	

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlay as expenditures, in the statement activities
these costs are allocated over their estimated useful lives as as depreciation:

Depreciation expense	(7,190)
Prior year book adjustment	(1,870)
Accrued interest is recorded in the statement of activities when incurred, it is not reported in governmental funds until paid	(84)
Changes in Net Assets of Governmental Activities	<u>\$ 8,428</u>

The accompanying notes are an integral part of the financial statements.

SHERMAN TOWNSHIP
Proprietary Funds Statement of Net Assets
March 31, 2007

	<u>Water Fund</u>	<u>Sewage Fund</u>	<u>Total</u>
CURRENT ASSETS			
Cash and cash equivalents	\$ 5,001	\$ 2,894	\$ 7,895
Cash construction account	53		53
Accounts receivable, net	8,117	2,925	11,042
Taxes receivable		2,353	2,353
Interest receivable	26		26
Restricted assets	8,121	32,490	40,611
Total Current Assets	<u>21,318</u>	<u>40,662</u>	<u>61,981</u>
NONCURRENT ASSETS			
Capital Assets, net of accumulated depreciation	62,832	483,839	546,671
Construction in progress	199,466	0	199,466
Total Noncurrent Assets	<u>262,298</u>	<u>483,839</u>	<u>746,136</u>
OTHER ASSETS			
Deferred bond issue costs, net	10,000	5,310	15,310
TOTAL ASSETS	<u>293,616</u>	<u>529,811</u>	<u>823,427</u>
LIABILITIES			
Accounts payable	669	591	1,260
Construction payable	32,769		32,769
Due to other funds	0	2,062	2,062
Payable from restricted assets:			
Accrued interest	1,709	991	2,701
Current maturities on bonds	3,000	1,500	4,500
Total Current Liabilities	<u>38,147</u>	<u>5,144</u>	<u>43,292</u>
LONG-TERM DEBT			
Bonds payable	185,000	134,000	319,000
Current maturities	(3,000)	(1,500)	(4,500)
Total Long-term Debt	<u>182,000</u>	<u>132,500</u>	<u>314,500</u>
Total Liabilities	<u>220,147</u>	<u>137,644</u>	<u>357,792</u>
NET ASSETS			
Investment in capital assets, net of related debt	44,529	348,838	393,367
Restricted net assets	8,174	32,490	40,664
Unrestricted net assets	20,766	9,838	30,604
NET ASSETS	<u>\$ 73,469</u>	<u>\$ 391,166</u>	<u>\$ 464,635</u>

The accompanying notes are an integral part of the financial statements.

SHERMAN TOWNSHIP**Proprietary Funds Statement of Revenues, Expenses, and Changes in Net Assets
For the Year ended March 31, 2007**

	<u>Water Fund</u>	<u>Sewage Fund</u>	<u>Total</u>
OPERATING REVENUES			
User fees	\$ 20,867	\$ 20,326	\$ 41,192
Other revenues-grant	3,800		3,800
Hydrant rental	2,000		2,000
	<u>26,667</u>	<u>20,326</u>	<u>46,992</u>
OPERATING EXPENSES			
Wages and taxes	4,142	0	4,142
Supplies and maintenance	5,138	1,997	7,135
Miscellaneous	5,065	1,757	6,822
Depreciation and amortization expense	2,134	14,371	16,505
	<u>16,479</u>	<u>18,125</u>	<u>34,604</u>
Total Operating Expenses	<u>16,479</u>	<u>18,125</u>	<u>34,604</u>
Operating Income (Loss)	10,188	2,201	12,388
OTHER INCOME(EXPENSE)			
Interest Income	245	284	529
Interest expense	2,674	6,053	8,727
Total Other Income(Expense)	<u>(2,429)</u>	<u>(5,769)</u>	<u>(8,198)</u>
Change in Net Assets	<u>7,759</u>	<u>(3,568)</u>	<u>4,190</u>
NET ASSETS - BEGINNING	64,455	395,735	460,190
Prior period interfund adjustment/rounding		255	255
NET ASSETS - ENDING	<u>\$ 72,214</u>	<u>\$ 392,422</u>	<u>\$ 464,635</u>

The accompanying notes are an integral part of the financial statements.

SHERMAN TOWNSHIP
Proprietary Funds Statement of Cash Flows
For the Year ended March 31, 2007

	<u>Water Fund</u>	<u>Sewage Fund</u>	<u>Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from customers	\$ 19,080	\$ 19,795	\$ 38,874
Cash received from grants and subsidies	3,800		3,800
Cash payments to suppliers for goods and services	(8,206)	(3,457)	(11,662)
Cash payments for wages and related benefits	(4,142)		(4,142)
Net cash from operating activities	<u>10,532</u>	<u>16,338</u>	<u>26,870</u>
CAPITAL AND RELATED FINANCING ACTIVITIES			
Interest paid	(1,165)	(6,060)	(7,226)
Bond Principal	(1,000)	(1,500)	(2,500)
Net cash used by capital and related financing activities	<u>(2,165)</u>	<u>(7,560)</u>	<u>(9,726)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest Income	245	284	529
Other	(8,431)	(6,951)	(15,382)
Net cash from investing activities	<u>(8,186)</u>	<u>(6,667)</u>	<u>(14,853)</u>
Net increase in cash	<u>182</u>	<u>2,110</u>	<u>2,292</u>
CASH AND EQUIVALENTS - BEGINNING OF YEAR	3,564	784	4,348
CASH AND EQUIVALENTS - END OF YEAR	<u>\$ 3,746</u>	<u>\$ 2,894</u>	<u>\$ 6,640</u>
INTEREST PAID IN 2006	<u>\$ 1,165</u>	<u>\$ 6,060</u>	<u>\$ 7,226</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:			
Operating income	\$ 10,188	\$ 2,201	\$ 12,388
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	2,134	14,371	16,505
Changes in assets and liabilities:			
Decrease (Increase) in accounts receivable	(3,787)	(531)	(4,318)
Decrease (Increase) in prepaids			
Increase (Decrease) in accounts payable	(181)	(44)	(225)
Increase (Decrease) in accrued liabilities	2,178	342	2,521
Net cash from operating activities	<u>\$ 10,532</u>	<u>\$ 16,338</u>	<u>\$ 26,870</u>

The accompanying notes are an integral part of the financial statements.

SHERMAN TOWNSHIP
Fiduciary Fund Statement of Net Assets
March 31, 2007

ASSETS

Cash	\$ <u>39,816</u>
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LIABILITIES

Due to other governmental units	\$ <u>39,816</u>
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The accompanying notes are an integral part of the financial statements.

SHERMAN TOWNSHIP

NOTES TO FINANCIAL STATEMENTS MARCH 31, 2007

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

THE REPORTING ENTITY

Sherman Township (Township) was organized as a General Law Township and is located in Keweenaw County, Michigan. It covers an area of approximately 65 square miles. The Township operates under an elected Board of Trustees consisting of five members, which are the supervisor, clerk, treasurer and two trustees. It also has one constable. The Township provides many services including law enforcement, fire protection, water supply system, solid waste disposal, sanitation, recreation and community enrichment.

Component Unit

In evaluating how to define the Township, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP, currently GASB Statement #14, *The Financial Reporting Entity*.

The criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity's financial statements include budget adoption, taxing Township, funding, appointment of the respective governing board, and scope of public service.

Based on the foregoing criteria, it was determined that the Township was not a component unit of any other governmental unit, nor is any unit a component of the Township.

The accounting policies of the Township conform to accounting principles generally accepted in the United States of America. The following is a summary of such significant policies.

BASIS OF PRESENTATION

During 2005, the Township adopted Governmental Accounting Standards Board (GASB) Statement No. 34, which substantially revised the financial statement presentation as described below.

Government-Wide Financial Statements:

The Government-Wide financial statements (i.e. the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of inter-fund activity has been removed from the statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support.

SHERMAN TOWNSHIP

NOTES TO FINANCIAL STATEMENTS MARCH 31, 2007 (Continued)

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

BASIS OF PRESENTATION (Continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include; (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Fund Financial Statements

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds. Major individual governmental and enterprise funds are reported in separate columns with composite columns for non-major funds.

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts which constitute its assets, liabilities, fund equity, revenues and expenditures/expenses. Funds are organized into three major categories: governmental, proprietary, and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the Township or meets certain criteria.

The following Major funds are reported by the Township:

Governmental Funds

General Fund – The general fund is the primary operating fund Township and is always classified as a major fund. It is used to account for all activities except those legally and administratively required to be accounted for another funds.

Fire Department Fund – This fund is used to account for the Township monies to operate the fire department portion of public safety (only Special Revenue Fund).

Proprietary Funds

Enterprise Fund – Enterprise funds are used to account for business-like activities provided to the general public. These activities are financed primarily by user charges and the measurement of financially activity focuses on the net income measurement similar to the private sector. This fund type includes both the Water and Sewage Funds.

The Township also reports the following fund type:

SHERMAN TOWNSHIP

NOTES TO FINANCIAL STATEMENTS MARCH 31, 2007 (Continued)

Proprietary Funds (continued)

Agency Funds - This fund type is used to account for assets held by the Township in a trustee or agency capacity for individuals, private organizations, other governments, and/or other funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. This fund type includes the Current and Delinquent Tax Account Funds

MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

Measurement focus is a term used to describe “which” transactions are recorded within the various financial statements. Basis of accounting refers to “when” transactions are recorded regardless of the measurement focus applied.

Both governmental and business-type activities in the government-wide financial statements and the proprietary and fiduciary fund financial statements are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

The governmental funds financial statements are presented on a modified accrual basis of accounting. Under the modified accrual of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. Available means collectible within the current period or within 60 days after year end. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that principal and interest on general obligation long-term debt, if any, is recognized when due.

Financial Statement Amounts

Cash and Equivalents - The Township’s cash and equivalents as reported in the Statement of Cash Flows and the Statement of Net Assets are considered to be cash on hand, demand deposits and short-term investments with maturities of three months or less, and apply to both restricted and unrestricted cash and equivalents.

Receivables – All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible.

Prepaid Expenses - All prepaid expenses, such as insurance premiums, which are expected to be written off within the next fiscal year are included in net current assets.

Restricted Assets - Cash – Certain resources set aside for the repayment of revenue bonds and interest payments, repair, replacements and improvements are classified as restricted assets on the balance sheet because their use is limited by the applicable bond covenant, grant agreement or local ordinance.

SHERMAN TOWNSHIP

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2007

(Continued)

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Statement Amounts (Continued)

Capital Assets – Capital Assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated capital assets are valued at their estimated fair market value on the date received. Capital assets include land and improvements, buildings, furniture, equipment, vehicles, and the water and sewage systems. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets. Interest costs incurred during construction of assets are also capitalized. Depreciation on all assets is provided on the straight-line basis over their estimated useful lives; which may range from five to fifty years.

Compensated Absences – The Township has no compensated absences for which employees will be paid, such as vacation and sick leave

Long-Term Debt

In the government-wide financial statements, outstanding debt is reported as a liability. Bond issuance costs, bond discounts or premiums, and the difference between any reacquisition price and the net carrying value of refunded debt are capitalized over the terms of their respective bonds using a method that approximates the effective interest method.

The government fund financial statements recognize the proceeds of debt and premiums as other financing sources of the current period. Insurance costs are reported as expenditure.

Equity Classification

Government-Wide Statements:

Equity is classified as net assets and displayed in three components:

1. Invested in capital assets. Consists of capital assets, net of accumulated depreciation.
2. Restricted net assets. Restricted net assets are those which have limited use due to third-party restrictions
3. Unrestricted net assets. All other assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt “.

Revenues and Expenses

Operating revenues and expenses are those that result from providing services and producing and delivering goods and/or services. It also includes all revenue and expenses not related to capital and related financing, non-capital financing or investing activities. Expenses are classified by operating and non-operating and are sub-classified by function such as salaries, supplies and contracted services.

SHERMAN TOWNSHIP

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2007

(Continued)

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Statement Amounts (Continued)

Inter-fund Activity

Inter-fund activities are recorded as: loans, services provided, reimbursements or transfers. Loans are reported as inter-fund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements are when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other inter-fund transactions are treated as transfers. Transfers between government or proprietary funds are netted as part of the reconciliation to the government-wide financial statements. Any residual balances outstanding between governmental activities and the business-type activities are reported in the government-wide financial statements as “internal balances”.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Stewardship, Compliance and Accountability:

Budgets and Budgetary Accounting:

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the various fund types as well as those prescribed or permitted by the Township. All annual appropriations lapse at the fiscal year end. The legal level of budgetary control adopted by the Township is the activity level. The budget has been amended to reflect the ongoing changes as necessary as a management control device.

Excess of expenditures over appropriations in budgeted funds during the audit period, are as follows:

	<u>Budget Appropriation</u>	<u>Actual Expenditure</u>
Special Revenue Fund	\$740	\$979

Deposits

Michigan law (Act 196 PA 1997) authorizes the Township to deposit and invest in one or more of the following:

- a. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.

SHERMAN TOWNSHIP

NOTES TO FINANCIAL STATEMENTS MARCH 31, 2007 (Continued)

Deposits (continued)

- b. Certificates of deposit, savings accounts, deposit accounts, depository receipts of a financial institution that is eligible to be a depository of funds belonging to the State under a law or rule of this State or the United States.
- c. Commercial paper rated at time of purchase within the two highest classifications established by not less than two standard rating services and matures not more than 270 days after the date of purchase.
- d. Repurchase agreements consisting of instruments listed in a.
- e. Bankers' acceptance of United States Banks.
- f. Obligations of this State or any of its political subdivisions at the time of purchase are rated as investment grade by not less than one standard rating service.
- g. Mutual funds registered under the Investment Company Act of 1940, Title I of Chapter 686, 54 Stat. 789, 15 U.S.C. 80a-4 to 80a-64, with the Township to purchase investment vehicles that are legal for direct investment by a public corporation.
- h. Obligations described in a. through g. if purchased through an inter-local agreement under the Urban Cooperation's Act of 1967, 1967 (Ex Sess) PA 7 MCL 123.512.
- i. Investment pools organized under the Surplus Funds Investment Pool Act, 1982 PA 367, 29.111 to 129.118.
- j. The investment pools organized under the Local Government Investment Pool Act, 1985 PA 21, MCL 129.141. to 129.150.

Michigan Law (Section 3, Act 40, PA 1932, as amended) prohibits security in the form of collateral, surety bond, or another form for the deposit of public money.

Cash and equivalents consisted of:

	Governmental Activities	Business-type Activities	Fiduciary Funds	Total
Petty cash	\$ 50	\$ 0	\$ 0	\$ 50
Cash (checking and savings)	53,566	7,949	39,816	101,331
Restricted cash	7,800	40,611	0	48,411
	<u>\$ 61,416</u>	<u>\$ 48,560</u>	<u>\$ 39,816</u>	<u>\$ 157,538</u>

The bank balances were fully insured at March 31, 2007.

SHERMAN TOWNSHIP

NOTES TO FINANCIAL STATEMENTS MARCH 31, 2007 (Continued)

NOTE B – PENSION PLAN

The Township contributes to a defined contribution pension plan in lieu of funding Social Security in accordance with IRS regulations and approval.

A defined contribution pension plan provides pension benefits in return for services rendered, provides an individual account for each participant, and specifies how contributions to the individual's account are to be determined instead of specifying the amount of benefits the individual is to receive. Under a defined contribution pension plan, the benefits of participant will receive depend solely on the amount contributed to the participant's account, the returns earned on investments of those contributions, and forfeitures of other participants' benefits that may be allocated to such participant's account.

As established by the Township, all officials and full and permanent part time and ploys are eligible under the plan. Contributions made by an employee or the Township vest 100% immediately. An employee that leaves employment of the Township is entitled to his or her contributions and the Townships contributions in the form of a retirement benefit that can be provided by his accrued benefit under the given annuity contract. The Township currently contributes 9% of wages paid. Participants under the plan can voluntarily contribute 3% of their wages to their respective account.

The Township's pension expense amounted to \$1,200.00 for the year ended March 31, 2007.

NOTE C – FIXED ASSETS

A summary of capital assets as of March 31, 2007 is as follows:

	<u>Balance</u> <u>4/1/2006</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>3/31/2007</u>
Governmental Activities				
Land	\$ 0	\$ 0	\$ 0	\$ 0
Buildings	459,400	9,738	-	469,138
Equipment	119,900	0	0	119,900
	<u>579,300</u>	<u>9,738</u>	<u>- \$</u>	<u>589,038</u>
Accumulated depreciation	<u>(552,368)</u>	<u>(7,428)</u>	<u>0</u>	<u>(559,796)</u>
Net Capital Assets	<u>\$ 26,932</u>	<u>\$ 2,310</u>	<u>\$ -</u>	<u>\$ 29,242</u>

SHERMAN TOWNSHIP

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2007

(Continued)

Fixed assets (continued)

Business-Type Activities

Land	\$ 3,000	\$ 0	\$ 0	\$ 3,000
Buildings	538,231	14,223	0	552,454
Equipment	106,708	0	0	106,708
	<u>647,939</u>	<u>14,223</u>	<u>0</u>	<u>\$ 662,162</u>
Accumulated depreciation	<u>(99,134)</u>	<u>(16,357)</u>	<u>0</u>	<u>(115,491)</u>
Net Capital Assets	<u>\$ 548,805</u>	<u>\$ (2,134)</u>	<u>\$ 0</u>	<u>\$ 546,671</u>

Depreciation expense is charged to programs of the Township as follows:

Governmental Activities	
General government	\$ 2,048
Public Safety	1,500
Public Works	3,880
Total Governmental Activities	<u>\$ 7,428</u>
Business-Type Activities	
Water System	\$ 2,134
Sewer System	14,223
Total Business-Type Activities	<u>\$ 16,357</u>

NOTE D – RISK MANAGEMENT

The Township is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Township maintains commercial insurance covering these risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the Township. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

SHERMAN TOWNSHIP

**NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2007
(Continued)**

NOTE E – LONG-TERM DEBT

Revenue Bonds

The Township issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds, contractual agreements, loans and installment purchase agreements are direct obligations and are backed by the full faith and credit of the Township. Revenue bonds typically involve a pledge of specific income derived from the acquired or constructed assets to pay for debt service. Long-term debt activity can be summarized as follows:

	<u>Interest Rate</u>	<u>Principal Matures</u>	<u>Beginning Balance</u>	<u>Additions (Reductions)</u>	<u>Ending Balance</u>	<u>Due within one year</u>
Governmental Activities						
Note Payable USDA	4.75%	12/1/2017	11,710	(900)	10,810	900
Business-Type Activities						
Revenue Bonds-Water System			16,000	(1,000)	15,000	1,000
	5.00%	1/1/2022				
Revenue Bonds-Water System Expansion	4.25%	12/1/2047	0	171,000	171,000	2,000
Special Assessment Bonds						
Sewage system	4.50%	8/1/2042	135,500	(1,500)	134,000	1,500
Total Business-Type Activities			<u>151,500</u>	<u>168,500</u>	<u>320,000</u>	<u>4,500</u>

Annual debt service requirements to maturity for the above obligations are as follows:

<u>Year end March 31</u>	<u>Governmental Activities</u>		<u>Business-Type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2008	\$ 900	\$ 257	\$ 4,700	\$ 13,506
2009	900	235	4,700	13,940
2010	1,000	214	5,200	13,718
2011	1,000	190	5,200	13,484
2012	1,000	166	5,200	13,250
Thereafter	<u>6,010</u>	<u>1,048</u>	<u>295,000</u>	<u>260,724</u>
	<u>\$ 10,810</u>	<u>\$ 2,111</u>	<u>\$ 320,000</u>	<u>\$ 328,621</u>

SHERMAN TOWNSHIP

**NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2007
(Continued)**

NOTE F – INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

Inter-fund balances

Receivable: General Fund from Sewer Fund	\$2,062
Payable: Sewer Fund to General Fund	\$2,062

Inter-fund transfers

<u>Transfers In:</u>	<u>Transfers Out:</u>	
Water Fund	General Fund	\$2,000

NOTE G – SUBSEQUENT EVENTS

The Township is in the midst of a water system improvement/expansion. The total project cost is \$578,000, of which \$174,800, was drawn during the audit period. The grant and loan (bond) program is being funded by and coordinated through the USDA's Rural Development. The project is being completed on schedule and should be online during the next audit period.

NOTE H – COMMITMENTS AND CONTINGENCIES

The Township receives Federal and State grants for specific purposes that are subject to review and audit by Federal and State agencies. Such audits could result in a request for reimbursement by the Federal and State agencies for expenditures disallowed under the terms and conditions of the appropriate agency. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time, although the Township expects such amount, if any, would not be significant to the Township's financial statements.

Required Supplementary Information

SHERMAN TOWNSHIP
Budgetary Comparison Schedule
General Fund
March 31, 2007

	Original Budget	Amended Budget	Actual	Variance With Amended Budget
Beginning of Year Fund Balance	\$ 52,403	\$ 52,403	\$ 52,403	\$
Resources (Inflows)				
Taxes	22,263	26,341	35,172	(8,831)
Licenses and permits				
State aid	14,599	14,063	6,948	7,115
Charges for services	9,352	10,090	10,090	0
Interest and rents	140	549	462	87
Other revenue		51	7,494	(7,443)
Loan proceeds				
Transfers from other funds			399	(399)
Amounts available for appropriation	98,756	103,496	112,968	(9,472)
Charges to appropriations (Outflows)				
Legislative	9,442	9,825	9,715	110
General government	17,482	23,928	23,819	109
Public safety	2,000	2,000	2,000	0
Public works	15,202	13,922	13,922	0
Other	728			0
Capital Outlay		25	25	0
Debt service	1,500	1,435	1,428	7
Transfer to other funds		108	280	(172)
Total charges to appropriations	46,354	51,243	51,189	55
Budgetary Fund Balance -March 31, 2007	\$ <u>52,403</u>	\$ <u>52,253</u>	\$ <u>61,779</u>	\$ <u>(9,526)</u>

SHERMAN TOWNSHIP
Budgetary Comparison Schedule
Fire Department Fund
March 31, 2007

	Original Budget	Amended Budget	Actual	Variance With Amended Budget
Beginning of Year Fund Balance	\$ 5,099	\$ 5,099	\$ 5,099	\$
Resources (Inflows)				
Other revenue	1,750	1,750	1,702	48
	<hr/>	<hr/>	<hr/>	<hr/>
Amounts available for appropriation	6,849	6,849	6,801	48
	<hr/>	<hr/>	<hr/>	<hr/>
Charges to appropriations (Outflows)				
Public safety	750	740	979	(239)
Capital Outlay	700	700	0	700
	<hr/>	<hr/>	<hr/>	<hr/>
Total charges to appropriations	1,450	1,440	979	461
	<hr/>	<hr/>	<hr/>	<hr/>
Budgetary Fund Balance -March 31, 2007	\$ <u>5,399</u>	\$ <u>5,409</u>	\$ <u>5,822</u>	\$ <u>(413)</u>

Other Supplementary Information

DAVID A. HEINONEN CPA PC

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Fax (906) 337-2912
Email dheinonen@sbcglobal.net

Report on Compliance and on Internal Control over Financial Reporting **Based on an Audit of Financial Statements Performed in** **Accordance with Government Auditing Standards**

Board Members
Sherman Township
Lake Linden, MI 49945

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Sherman Township, Michigan as of and for the year ended March 31, 2007, which collectively comprise the Township's basic financial statements and have issued our report thereon dated July 31, 2007. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in **Government Auditing Standards**, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Sherman Township, Michigan's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

However, we noted a certain matter involving internal control over financial reporting in its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control over financial reporting that, in our judgment could adversely affect Sherman Township's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is noted as follows:

Because of a limited number of available personnel, it is not always possible to adequately segregate certain incompatible duties so that no one employee has access to both physical assets and the related accounting records, or to all phases of the transaction. Consequently, the possibility exists, that unintentional or intentional errors or irregularities could exist and not be promptly detected.

However, we believe that the reportable condition described above is not a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Sherman Township's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect of the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under **Government Auditing Standards**.

This report is intended solely for the information and use of the board members, management, others with the organization, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

David A. Heinonen, CPA, PC

Laurium, Michigan
July 31, 2007

Sherman Township, Michigan

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS Year ended March 31, 2007

This schedule responds to the audit findings from the fiscal year ended March 31, 2005, as the fiscal year ended March 31, 2006, was a non-audit year.

Findings – Internal Control Design

Condition: The procedures used to collect cash receipts from sales of fund raising events, and the lack of evidential matter with respect to those receipts, made it difficult to audit those receipts.

Recommendation: Procedures should be implemented to allow reasonable evidential matter for audit; such as pre-numbered receipts, witness cash counting, as well as the routine segregation of duties as necessary for cash collections.

Current Status: The Township has implemented procedures as recommended.

Condition: This finding was a reportable condition stating an absence of appropriate segregation of duties due to a limited number of available personnel.

Recommendation: The auditor recommended that, due to the unlikely event that the Township would hire additional personnel in order to obtain the proper segregation of duties the Township Board should remain involved in the financial affairs of the Township to provide oversight and independent review functions.

Current Status: Additional personnel have not been hired. However, the Township Board has provided oversight and independent review functions.

Findings – Compliance

Conditions: The Township has not recorded general infrastructure, as well as other assets in the governmental activities, and the associated depreciation on those assets. The Township had prepared certain financial statements on the cash basis of accounting. The Township had not adopted budgets for all its governmental fund types. The Township had not presented government-wide financial statements to display the financial position and changes in financial position of its governmental and business-type activities.

Recommendations: The auditor recommended that, the Township record its assets, prepare the financial statements on the proper basis, adopt the appropriate budgets, and present government-wide financial statements.

Current Status: The Township has now adopted budgets for all funds, and with adoption of GASB 34, the recording of assets, the financial statement basis, and the government-wide financial statements have been presented.

Sherman Township, Michigan

SCHEDULE OF FINDINGS AND RESPONSES
Year ended March 31, 2007

FINDINGS - FINANCIAL STATEMENT AUDIT

Internal Control Design

Condition: An absence of appropriate segregation of duties due to limited number of available personnel.

Criteria: If an adequate number of personnel were available, a proper segregation of duties would provide reasonable assurance that no one employee would have access to both physical assets and the related accounting records, or to all phases of transactions.

Effect: Because of the absence of an appropriate segregation of duties, the possibility still exists that unintentional or intentional errors or irregularities could exist and not be promptly detected.

Recommendation: It is not likely that the Township will hire additional personnel to obtain the proper segregation of duties, therefore the Township should remain involved in the financial affairs of the Township to provide oversight and independent review functions.

Response: We concur with the recommendation.

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July 31, 2007

Board Members
Sherman Township
Lake Linden, MI 49945

In planning and performing our audit of the financial statements of Sherman Township, Michigan, for the year ended March 31, 2007 we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide any assurance on the internal control. We noted certain matters involving internal control and its operation and other items that came to our attention in the normal conduct of our audit that are presented to assist in improving accounting procedures and controls.

Internal control

The size of the Township's administrative staff precludes certain internal controls that would be preferred if it were large enough to provide optimum segregation of duties. This dictates that the Township Board should remain involved in the financial affairs of the Township to provide oversight and independent review functions.

Compliance

Actual activity level expenditures exceeded amounts authorized in the final amended budgets of the Township's Special Revenue Fund, as follows:

<u>Fund/Activity</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Over Expenditure</u>
Fire Department Fund	\$ 740	\$ 949	(\$ 239)

P.A. 621 of 1978, Section 18 (1), as amended, provides the local unit shall not incur expenditures in excess of the amount appropriated. It is recommended that the Township fully comply with all provisions of the Act.

This report is intended for the information and use of the Township Board membership and applicable Federal and State agencies. We will be pleased to discuss any of comments with you at your convenience.

Sincerely,

David A Heinonen, CPA, PC